



**The Commonwealth of Massachusetts**

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**DEPARTMENT OF  
TELECOMMUNICATIONS AND ENERGY**

June 30, 2005

D.T.E. 05-44

Petition of Boston Edison Company d/b/a NSTAR Electric requesting approval of (1) a reduction to its transition charge, (2) a reduction to its distribution rates in accordance with a settlement approved in D.T.E. 03-88, and (3) an increase to its distribution rates related to the end of standard offer service.

D.T.E. 05-45

Petition of Cambridge Electric Light Company d/b/a NSTAR Electric requesting approval of (1) an increase to its transition charge, (2) a reduction to its distribution rates in accordance with a settlement approved in D.T.E. 03-88, and (3) an increase to its distribution rates related to the end of standard offer service.

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FOR: BOSTON EDISON COMPANY and CAMBRIDGE  
ELECTRIC LIGHT COMPANY  
d/b/a NSTAR ELECTRIC  
Petitioners

## I. INTRODUCTION

On May 24, 2005, Boston Edison Company (“BECo”) and Cambridge Electric Light Company (“Cambridge”) (collectively, “NSTAR”) filed for effect July 1, 2005, distribution rate reductions in order to implement a settlement (“Settlement”) approved by the Department of Telecommunications and Energy (“Department”) in Default Service Costs, D.T.E. 03-88A and D.T.E. 03-88B (2005) (together, “Compliance Filings”). In addition to these Compliance Filings, BECo and Cambridge propose to make certain adjustments to their distribution rates and transition charges, as discussed below, for effect July 1, 2005. The BECo filing was docketed as D.T.E. 05-44 and the Cambridge filing was docketed as D.T.E. 05-45.

On June 1, 2005, the Department requested comments on the filings from interested parties. On June 9, 2005, the City of Cambridge (“City”), The Energy Consortium (“TEC”), and the Attorney General of the Commonwealth (“Attorney General”) submitted comments. On June 13, 2005, NSTAR submitted reply comments. BECo responded to four Department information requests and Cambridge responded to ten Department information requests.<sup>1</sup>

## II. DESCRIPTION OF PROPOSED TARIFFS

In the D.T.E. 03-88 Compliance Filings, BECo and Cambridge propose to decrease their distribution charges in order to implement the Settlement which concerns the transfer of

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<sup>1</sup> The Department moves into the record (1) in D.T.E. 05-44, BECo’s responses to information requests DTE-BECO 1-1 through 1-4, and (2) in D.T.E. 05-45, Cambridge’s responses to information requests DTE-Cambridge 1-1 through 1-7 and DTE-Cambridge 2-1 through 2-3.

cost recovery from distribution rates to basic service rates.<sup>2</sup> Consistent with the Settlement, BECo's and Cambridge's tariffs enable them to reconcile any over- or under-recoveries associated with the level of distribution costs transferred to basic service.

In addition, BECo and Cambridge each propose to increase distribution rates for specific rate classes in order to eliminate reductions that were implemented to meet the Restructuring Act's rate reduction requirements, which expired after February 28, 2005. BECo requests full reinstatement of the previously approved Department distribution rates in classes R-2, R-4, G-1, and T-1. Cambridge requests full reinstatement of previously approved Department distribution rates in classes R-2, R-4, R-5, R-6, and G-4.

Finally, BECo and Cambridge each propose to adjust their transition charges. BECo seeks to reduce its transition charge from an average rate of 2.335 cents per kilowatt-hour ("KWH") to an average rate of 1.634 cents per KWH (a reduction of 0.701 cents per KWH or 30.0 percent) in order to avoid what it projects to be an overcollection of transition costs by \$68.5 million at the end of 2005. Cambridge seeks to increase its transition charge from an average rate of 0.288 cents per KWH to an average rate of 1.332 cents per KWH (an increase of 1.044 cents per KWH or 362.5 percent) in order to avoid what it projects to be an undercollection of transition costs by \$22.2 million at the end of 2005. Specifically,

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<sup>2</sup> On May 31, 2005, the Department approved BECo's and Cambridge's basic service rates effective for the period: (1) July 1, 2005, through December 31, 2005, for residential, small commercial and industrial ("C&I"), and streetlighting customers; and (2) July 1, 2005, through September 30, 2005, for medium and large C&I customers. As part of that filing, the costs approved for transfer in D.T.E. 03-88A and D.T.E. 03-88B were added to BECo's and Cambridge's basic service rates.

Cambridge proposes to reduce its projected undercollection to \$11.7 million by the end of 2005, with the remainder of the projected undercollection to be recovered in 2006 (NSTAR Filing at Exh. CAM-CLV-1 (revised)).

### III. SUMMARY OF THE COMMENTS

No commenters objected to the D.T.E. 03-88A and D.T.E. 03-88B Compliance Filings. The Attorney General asks the Department to reject BECo's and Cambridge's proposed rate adjustments for both distribution rates and transition charges (Attorney General Comments at 3). The Attorney General argues that the appropriate venue in which to implement these changes is in NSTAR's annual reconciliation filings, which would allow for full investigation of the proposed changes (*id.*). Having failed to do so at the end of 2004, the Attorney General asserts that BECo and Cambridge should wait until the end of this year to adjust their base transition rates (*id.*).<sup>3</sup>

The City and TEC also ask the Department to reject the proposed increase to Cambridge's transition rate in order to avoid "rate shock" (City Comments at 1; TEC Comments at 1). They contend that implementation of Cambridge's proposal, which constitutes a 362.5 percent increase in the transition charge, would have an "immediate and substantial impact" on the City and TEC's member companies (*id.*). Specifically, the annual

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<sup>3</sup> In addition, in proposing these adjustments, the Attorney General contends that NSTAR has not addressed the benefits ratepayers will realize from recent purchase power agreement buyouts, restructuring, and securitization (Attorney General Comments at 3). In particular, the Attorney General asserts that NSTAR has failed to show that it has fully mitigated transition costs and minimized the impact of recovery of transition costs on ratepayers as required by G.L. c. 164, § 1G(d) (*id.* at n.3).

impacts are estimated to be approximately (1) \$450,000 for the City, (2) \$2 million for Harvard University, (3) \$1 million for the Massachusetts Institute of Technology, and (4) \$400,000 for Novartis (City Comments at 1; TEC Comments at 2). The City and TEC assert that increases of this magnitude, with no advance warning, create significant budgetary problems (City Comments at 1; TEC Comments at 1). The City further states that neither it nor its many residential customers who are managing on fixed incomes could predict or absorb an increase of 362.5 percent on a portion of their bill (City Comments at 1). Consequently, the City and TEC both conclude that the proposed increases violate the principle of rate continuity and suggest that Cambridge recover these costs more gradually over a period of time longer than 18 months (City Comments at 2; TEC Comments at 3).

BECo and Cambridge argue that there is no legal impediment to making the proposed rate adjustments and that the proposals are consistent with Department ratemaking principles (NSTAR Comments at 6-7). Contrary to the Attorney General's contentions, BECo and Cambridge state that the reconciling mechanisms in BECo's Restructuring Settlement Agreement and Cambridge's Restructuring Plan do not prohibit them from seeking additional transition charge adjustments over the course of a year (id.). BECo and Cambridge also assert that their mid-year corrections appropriately recover transition costs in a timely manner and, therefore, minimize projected deferrals (id. at 1). In addition, BECo and Cambridge contend that, contrary to TEC's assertions concerning rate continuity, the bill impacts for Cambridge's proposed transition charge increase are generally under ten percent (id. at 3). Finally, BECo and Cambridge disagree with TEC's recommendation to spread the rate increase out over a

longer period of time, stating transition costs should be recovered as they are incurred (id. at 4-5).

#### IV. ANALYSIS AND FINDINGS

BECo and Cambridge propose three categories of adjustments as part of this filing:

(1) distribution rate reductions in order to implement the Settlement approved in D.T.E. 03-88A and D.T.E. 03-88B; (2) distribution rate increases for specific rate classes in order to eliminate reductions that were implemented to meet the Restructuring Act's rate reduction requirements; and (3) transition charge adjustments in order to correct a projected overcollection for BECo and a projected undercollection for Cambridge. In addition, although not explicitly set out in the filing, our review indicates that Cambridge's proposal contains a transmission rate redesign.

The Department has reviewed BECo's and Cambridge's Compliance Filings and finds that they are consistent with the Settlement approved in D.T.E. 03-88A and D.T.E. 03-88B. Accordingly, BECo's and Cambridge's proposed distribution rate reductions are approved.

With respect to the proposed increases in distribution rates, because the design of rates was restricted prior to March 1, 2005, by the rate cap requirements of the Restructuring Act and a Department requirement that the transition charge be at the same level for all rate classes, BECo and Cambridge voluntarily lowered distribution rates for some rate classes to optimize transition cost recovery. See Boston Edison Company, D.T.E. 01-78 (2001); Cambridge Electric Light Company/Commonwealth Electric Company, D.T.E. 01-79 (2001). In order to eliminate these voluntary rate reductions to certain classes, both BECo and

Cambridge propose to reinstate the distribution rates approved by the Department prior to the reduction (while still incorporating the reduction related to the Settlement in D.T.E. 03-88, discussed above).

The Department finds that BECo's and Cambridge's proposed distribution rate adjustments are consistent with G.L. c. 164, § 1B(b) and the distribution rates approved by the Department as part of BECo's Restructuring Settlement Agreement and Cambridge's Restructuring Plan. Boston Edison Company, D.P.U./D.T.E. 96-23 (1998); Commonwealth Electric Company/Cambridge Electric Light Company, D.P.U./D.T.E. 97-111 (1998). See also NSTAR Merger, D.T.E. 99-19 (1999). Accordingly, BECo's and Cambridge's proposed distribution rate adjustments are approved.

With respect to the proposed transition charge adjustments, one of the Department's goals when approving rates is the maintenance of rate continuity. Rate continuity requires that rate changes should be made in a predictable and gradual manner which allows consumers reasonable time to adjust their consumption patterns in response. See e.g., Western Massachusetts Electric Company, D.P.U. 84-25 at 168 (1984). We find that the magnitude of the proposed increase is inconsistent with the Department's policy goal of rate continuity. Further, we note that Cambridge's projection of an undercollection of \$22.2 million is based on a number of assumptions including forecasted sales and fuel prices and, therefore, is likely to change.

Under its current proposal, Cambridge seeks an average transition charge of 1.332 cents per KWH through the end of 2005 which is projected to remain approximately the

same during 2006. After that, Cambridge projects that the transition charge will decrease to 0.798 cents per KWH in 2007, decrease to 0.645 cents per KWH in 2008, and decrease to 0.049 cents per KWH in 2009 (Cambridge Filing at Exhs. CAM-CLV-1 (updated 2005); CAM-CLV-1 (revised)). The projected decline of transition charges from 2007 to 2009 provides an opportunity for a more gradual recovery of any unrecovered transition costs. Therefore, the Department directs Cambridge to implement a more gradual recovery of unrecovered transition costs and to submit a new tariff which implements, on average, a total transition charge of 0.549 cents per KWH (see Exh. DTE-Cambridge 1-7(c) (supp.)).

Conversely, BECo's proposal to lower its transition charge to avoid a projected \$68.5 million overcollection will not adversely impact customers' bills. Therefore, BECo's proposed transition charge adjustments are approved, subject to reconciliation after investigation of BECo's next reconciliation filing.

Finally, as part of this filing, Cambridge made certain adjustments to some rate classes' transmission charges. Specifically, adjustments were made to the transmission charges in Cambridge's rates R-6, G-3, SB-1, SS-1, and MS-1. Cambridge states that the rate redesign made bill impacts relatively constant across usage levels (Exh. DTE-Cambridge 2-1).

The transmission rate redesign proposed by Cambridge is not necessary to achieve a return of the projected undercollection (id.). The Department, therefore, directs Cambridge to file revised tariffs M.D.T.E. Nos. 220D through and including 225D, 230D through and including 236D, 240D, 241C, 237E, and 238E that do not change the transmission rates and apply the transition charge directed above.



For the reasons discussed above, the Department accepts BECo's proposed tariffs and Cambridge's proposed tariffs M.D.T.E. Nos. 254D and 255D. The remainder of Cambridge's proposed tariffs are disallowed and Cambridge is directed to refile tariffs that comply with this Order.

IV. ORDER

Accordingly, after review and consideration, it is

ORDERED: That the tariffs filed by Boston Edison Company with the Department on May 24, 2005, M.D.T.E. Nos. 120D through and including 123D, 130D through and including 135D, 136C, 138B, 140D through and including 142D, for service on and after July 1, 2005 are ALLOWED; and it is

FURTHER ORDERED: That the tariffs filed by Cambridge Electric Light Company with the Department on May 24, 2005, M.D.T.E. Nos. 254D and 255D are ALLOWED; and it is

FURTHER ORDERED: That the tariffs filed by Cambridge Electric Light Company with the Department on May 24, 2005, M.D.T.E. Nos. 220D through and including 225D, 230D through and including 236D, 240D, 241C, 237E, and 238E, for service on and after July 1, 2005 are DISALLOWED; and it is

FURTHER ORDERED: That Boston Edison Company and Cambridge Electric Light Company comply with any and all other directives contained in this Order.

By Order of the Department,

/s/

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Paul G. Afonso, Chairman

/s/

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W. Robert Keating, Commissioner

/s/

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Judith F. Judson, Commissioner

An appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.